Submitted Statement of

The National Federation of Independent Business

Subject: **Interest Bearing Checking Accounts**

Before: **House Financial Services:**
Financial Institutions and Consumer Credit Subcommittee

Date: **March 13, 2001**

The National Federation of Independent Business (NFIB) is pleased to have the opportunity to submit this statement for the record on the issue of interest bearing checking accounts.

Passed in 1933, the law prohibiting interest bearing checking accounts was initially an effort to keep banks solvent during the Great Depression. Yet, almost 70 years later, it is still in effect, in spite of widespread agreement that it is no longer valid or necessary. In a Joint Report issued in 1996 titled, "Streamlining of Regulatory Requirements," the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision all stated that the statutory provision against paying interest on business checking accounts "**no longer serves a public purpose.**"

In a recent NFIB survey, 86 percent of small-business owners said they should be able to earn interest on their checking accounts. Rex Hammock, an NFIB member who has testified on this issue in the past, put it most succinctly: when told by his banker that he couldn't earn interest on a checking account, he responded "why not?" It often comes as a shock to many small employers that earning interest on a checking account is possible at all; even more surprising to them is the fact that the law actually *prevents* them from doing so.

To address the problem of how to earn interest on money that will eventually be used to pay debts, small employers like Hammock are advised by their banks to do one of two things: establish multiple accounts or create a sweep account. If a small employer chooses to set up multiple accounts, he must have a checking account from which the business pays creditors, a

money-market account (or "liquid investment account") where it can earn interest on money not immediately needed in the checking account, and a line-of-credit for its purchasing needs. For a small-business owner with only three or four employees, keeping track of all those accounts can become a bookkeeping nightmare. The owner often ends up doing double-duty as accountant: constantly shifting money from one account to another to be sure debts are being paid, while interest is not lost. For small employers, serving as an account watchdog often means directing valuable time and resources away from running their businesses. To address this, banks have suggested to owners like Hammock that they set up sweep accounts. While a sweep account is an adequate solution for a large business with many employees and the technological ability to bank solely online, it is merely another headache for the small-business owner whose limited "accounting" staff should spend their time concentrating on the immediate needs of the business: processing receipts and managing payables and receivables. In addition, a sweep account often requires a minimum deposit amount as high as $25,000, a sum too great for many small-businesses to bear.

Small businesses cannot afford the luxury of leaving extra money in a non-interest earning account. Yet, the other options available to them only create more work for their limited staff. The easiest and most sensible way to unburden these small-business owners is to lift the law preventing the earning of interest on checking accounts. It is an outdated and unnecessary restriction. We thank the Committee and Representative Toomey for advancing legislation to finally allow small-business owners to earn interest on their checking accounts. We therefore strongly support legislation to be introduced by Representative Pat Toomey today that will allow business owners to earn interest on their checking accounts.